

Message Text

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ACTION AF-08

INFO OCT-01 EUR-12 ISO-00 AID-05 CIAE-00 COME-00 EB-08

FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02

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FM AMEMBASSY KINSHASA

TO SECSTATE WASHDC 2807

INFO AMEMBASSY LONDON

AMEMBASSY BRUSSELS

AMEMBASSY PARIS

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DEPT PASS EXIM, TREASURY, COMMERCE

E.O. 11652: N/A

TAGS: EGEN EAID EFIN

SUBJECT: DOMESTIC PRICE TRENDS

1. SUMMARY. DOMESTIC CONSUMER PRICES IN KINSHASA STABILIZED IN MARCH 1977 ACCORDING TO THE EMBASSY'S MARKET BASKET SURVEY. SINCE APRIL 1976, PRICES HAVE RISEN BETWEEN 55 PER CENT AND 68 PER CENT DEPENDING ON INCOME GROUP. HIGHER PRICES FOR FISH, MEAT AND POULTRY ACCOUNT FOR THE LARGEST SHARE OF THE INCREASE. PRICE INCREASES FOR OTHER FOOD ITEMS AND CLOTHING APPEAR TO HAVE BEEN MODEST. AS WAGE INCREASES HAVE BEEN OFFICIALLY RESTRICTED TO 20 PER CENT, THERE HAS PROBABLY BEEN A SIGNIFICANT SHIFT IN CONSUMPTION PATTERNS FROM EXPENSIVE PROTEIN TO LESS EXPENSIVE CEREALS AND VEGETABLES. THE FINDINGS OF THE EMBASSY SURVEY ARE LARGELY CONSISTENT WITH THOSE OF THE UNIVERSITY OF ZAIRE. THE MOST SIGNIFICANT CAUSES OF THE INCREASED PRICES APPEAR TO BE AN UNDERLYING EXPANSION OF THE MONEY SUPPLY, INSUFFICIENT SUPPLIES OF SOME FOODSTUFFS AND THE INEFFECTIVENESS OF GOZ PRICE CONTROLS. THERE IS EVIDENCE THAT COMMERCIAL

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AND USG FINANCED IMPORTS OF WHEAT, RICE, TOBACCO AND COTTON HAVE HAD A MODERATING EFFECT ON PRICES. THE OUTLOOK FOR THE REST OF 1977 IS FOR CONTINUED PRICE INFLATION. THE PRECISE INFLATION RATE WILL DEPEND ON THE SIZE OF THE GOZ'S BUDGET DEFICIT, LOCAL PRODUCTION AND DISTRIBUTION PERFORMANCE AND THE AVAILABILITY OF IMPORTED FOODSTUFFS. END SUMMARY.

2. ACCORDING TO THE MARCH 23 MARKET BASKET SURVEY, PRICE OF CONSUMER GOODS STABILIZED IN THE LAST MONTH. THE FOLLOWING COMPARES THE MARKET BASKET INDEX OBTAINED IN MARCH WITH THOSE FROM PREVIOUS MONTHS.

	APRIL 22 1976	JAN. 24 1977	FEB. 23 1977	MAR. 23 1977
HIGH INCOME	100	164.6	168.5	166.2
MIDDLE INCOME	100	155.1	157.0	154.2
LOW INCOME	100	166.2	166.9	167.7

FOR MIDDLE AND HIGH INCOME FAMILIES, THE COST OF A TYPICAL MARKET BASKET OF CONSUMER GOODS ACTUALLY DECLINED IN MARCH. FOR LOW INCOME FAMILIES THE COST OF THE MARKET BASKET INCREASED 0.8 POINTS. THE MODERATE INCREASE FOR MARCH PRICES APPEARS TO FOLLOW A SEASONAL TREND FOR PAST YEARS; IT PROBABLY DOES NOT REPRESENT A PERMANENT DOWNWARD SHIFT IN ZAIRE'S INFLATION RATE.

3. SINCE LAST APRIL, THE BIGGEST FACTOR ACCOUNTING FOR THE MARKET BASKET INCREASES HAS BEEN SHARP RISE IN THE PRICE OF MEAT, FISH AND POULTRY. INCREASED FISH, MEAT AND POULTRY PRICES ACCOUNT FOR ROUGHLY 2/3 OF THE INCREASE IN THE MARKET BASKET INDEX. THE FOLLOWING SUMMARIZES WHICH EXPENDITURE CATEGORIES HAVE BEEN MOST RESPONSIBLE FOR THE INCREASED COST OF THE MARKET BASKET OF HIGH, MEDIUM AND LOW INCOME HOUSEHOLDS:

	HIGH	MEDIUM	LOW
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TOTAL INCREASE IN THE COST OF THE MARKET BASKET	66.1	54.2	67.7
(OF WHICH DUE TO)			
MEATS, FISH, POULTRY	41.5	32.7	50.6
CEREALS AND STARCHES	0.7	2.4	1.9
VEGETABLES	-0.6	-1.3	-1.4
OILS, SUGAR, SPICES	1.5	1.9	2.1
BEVERAGES	3.8	-0.3	0.5
CLOTHING	1.2	0.9	0.5
OTHER	18.1	17.9	11.6

4. CEREALS AND STARCH PRICES HAVE RISEN MORE MODESTLY. RICE AND BREAD ARE ACTUALLY SLIGHTLY LESS EXPENSIVE TODAY THAN THEY WERE LAST APRIL. VEGETABLES HAVE BEEN A MORE VOLATILE ITEM BECAUSE OF SHARP VARIATIONS IN THE SUPPLIES AVAILABLE IN KINSHASA AT ANY GIVEN TIME. THE PRICE OF BEVERAGES HAS REMAINED MORE OR LESS STABLE. THE RETAIL PRICE OF A BOTTLE OF BEER, CONSIDERED A STAPLE IN ZAIRE, INCREASED FROM 30 TO 50 MAKUTA. THE PRICE OF POWDERED MILK HAS DECREASED WHILE THE PRICE OF A

POPULAR LEMON SOFT DRINK HAS REMAINED THE SAME. THE INCREASE

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IN THE COST OF CLOTHING ITEMS IN THE MARKET BASKET HAS BEEN MODERATE, AMOUNTING TO 2 PER CENT FOR A BASIC SHIRT AND 27 PER CENT FOR A STANDARD PIECE OF LOCALLY-WOVEN FABRIC. OTHER EXPENDITURES INCLUDE SUCH ITEMS AS HOUSING EXPENSES, TRANSPORT, MEDICINE, SCHOOL EXPENDITURES, ETC. THERE HAS BEEN NO UNIFORM MOVEMENT OF PRICES IN THE "OTHER" CATEGORY. SOME ITEMS SUCH AS CEMENT, WATER, ELECTRICITY, PETROL, AND TRANSPORT COSTS HAVE RISEN SUBSTANTIALLY. OTHER ITEMS SUCH AS RENTAL COSTS, AND MEDICINE DO NOT SEEM TO HAVE RISEN SUBSTANTIALLY BUT THESE ARE AREAS SUBJECT TO GOZ PRICE CONTROL AND ACCURATE MARKET PRICES ARE DIFFICULT TO OBTAIN.

5. SINCE THE MARCH 12 DEVALUATION, WAGE INCREASES HAVE BEEN OFFICIALLY LIMITED TO 20 PER CENT. ALTHOUGH THERE HAVE BEEN CASES IN WHICH WAGES HAVE RISEN FASTER DUE TO COST OF LIVING CLAUSES AND OTHER FACTORS, FOR THE MOST PART WE THINK THE 20 PER CENT RESTRICTION HAS BEEN EFFECTIVE. THUS, MANY KINSHASA HOUSEHOLDS HAVE SUFFERED A SEVERE CUT IN THEIR PURCHASING POWER IN THE LAST YEAR. SINCE THE LARGEST PRICE INCREASES HAVE BEEN FOR MEAT, FISH AND POULTRY, WE EXPECT THAT MOST HOUSEHOLDS HAVE HAD TO SHIFT FROM EXPENSIVE PROTEIN TO LESS EXPENSIVE CEREALS AND VEGETABLES TO MAKE ENDS MEET. THE FINDINGS OF THE EMBASSY

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SURVEY ARE LARGELY CORROBORATED BY PRICE SURVEY WORK DONE BY THE FACULTY OF ECONOMICS AT THE UNIVERSITY OF ZAIRE. THEIR RESULTS, PUBLISHED IN THE MONTHLY LETTER OF THE INSTITUTE FOR ECONOMIC AND SOCIAL RESEARCH (IRES), SHOW A RISE OF 34 PER CENT BETWEEN JUNE 1976 AND JANUARY 1977.

6. THE MOST SIGNIFICANT SINGLE CAUSE OF INCREASED CONSUMER PRICES APPEARS TO BE AN UNDERLYING EXPANSION OF THE MONEY SUPPLY WHICH IN TURN IS LINKED TO THE GOZ BUDGET DEFICIT. BETWEEN SEPTEMBER 1975 AND AUGUST 1976 (THE MOST RECENT PERIOD FOR WHICH COMPLETE FIGURES ARE AVAILABLE), THE MONEY SUPPLY ROSE BY 30 PER CENT. THIS INCREASE WAS DUE ALMOST ENTIRELY TO INCREASED CREDITS TO GOVERNMENT, WHICH ROSE BY 64 PER CENT. OVER THE SAME PERIOD, CREDITS TO THE PRIVATE SECTOR ROSE BY ONLY 9 PER CENT. DEVALUATION, OF COURSE, IS A SECOND CAUSE OF THE INCREASED PRICES OF MANY IMPORT AND IMPORT-COMPETING GOODS. SUPPLY SHORTFALLS OF SOME HAVE ALSO CONTRIBUTED TO THE RISE IN THE PRICE OF SOME LOCALLY PRODUCED GOODS. IN ITS ANALYSIS OF THE CAUSE OF PRICE INCREASES, IRES NOTES THAT THE GOZ PRICE CONTROLS AND EFFORTS TO INCREASE SUPPLY HAVE BEEN SUCCESSFUL EXCEPT IN THE CASE OF IMPORTED PRODUCTS.

7. THERE IS, IN FACT, A CASE TO BE MADE THAT COMMERCIAL AND USG FINANCED IMPORTS OF WHEAT RICE, TOBACCO AND COTTON HAD AN IMPORTANT MODERATING EFFECT ON PRICES. UNDER USG-FINANCED PROGRAMS ALONE THE UNITED STATES PROVIDED \$5 MILLION WORTH OF WHEAT, \$16 MILLION WORTH OF RICE, \$5 MILLION OF COTTON AND \$2 MILLION OF TOBACCO. IMPORTS OF RICE FROM CHINA AND THAILAND TOTALLED \$10 MILLION ASSUMING US PRICES. MIDEMA IMPORTS OF WHEAT TOTALLED AN ESTIMATED \$18 MILLION. FURTHERMORE, THE GOZ ITSELF PURSUED A CHEAP FOOD POLICY, AT THE TIME OF THE MARCH 12 DEVALUATION WHEN IT SPONSORED THE IMPORTATION OF \$30 MILLION IN FOODSTUFFS AT SUBSIDIZED, PRE-DEVALUATION PRICES. WE THINK IMPORTS HAVE UNDOUBTEDLY MODERATED THE PRICE INCREASES OF RICE, BREAD, BEER (A DIET STAPLE IN WHICH RICE HAS BEEN USED AS AN INPUT IN PLACE OF BARLEY), CIGARETTES AND CLOTHING. THE PRODUCT LIMITED OFFICIAL USE

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CATEGORY IN WHICH THERE WERE NOT LARGE COMMERCIAL OR USG-FINANCED IMPORTS -- THE ANIMAL PROTEIN CATEGORY -- WAS PRECISELY THE CATEGORY MOST RESPONSIBLE FOR THE RISE IN THE COST OF THE MARKET BASKET.

8. THE OUTLOOK FOR THE REST OF 1977 IS FOR CONTINUED PRICE INFLATION. THE GOZ HAS SET A TARGET OF 30 PER CENT, WHICH REQUIRES A DECREASE IN THE GOZ BUDGET DEFICIT AND A CUT IN THE GROWTH OF THE MONEY SUPPLY. OBSERVERS SUCH AS CITIBANK VICE PRESIDENT FREIDMAN THINK THAT 50 PER CENT IS A MORE REALISTIC

FIGURE. THE EMBASSY BELIEVES THE HIGHER FIGURE IS MORE PROBABLE, PARTICULARLY GIVEN THE LIKELIHOOD OF LARGER-THAN-EXPECTED GOZ DEFICIT AND THE POSSIBILITY OF FOOD SHORTAGES RELATED TO THE CONFLICT IN SHABA. FURTHERMORE, GIVEN ITS DEPLETED FOREIGN EXCHANGE RESERVES, ZAIRE WILL PROBABLY IMPORT A MORE MODEST LEVEL OF FOODSTUFFS AND OTHER CONSUMER ITEMS IN 1977. THIS WILL TEND TO DECREASE SUPPLIES AND BOOST CONSUMER PRICES.

DECONTROL AFTER APRIL 30, 1979.

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